KEYNOTE INTERVIEW

Building from the ground up

Structural changes are favouring the platform-building approach of larger managers with the scale and toolkits to drive outsized returns, says CVC DIF's Willem Jansonius

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Considering the rapid pace of change in the market – and wider world – infrastructure managers need to be astute when adopting a platform building approach. The fundraising environment has become more challenging and the landscape undeniably more competitive. Managers need to tap into wider macro-themes to help stand out against the crowd.

For CVC DIF, 2024 was a busy year as the manager looked to strengthen its own platform building approach. Final closes across various infrastructure funds reached €6 billion, €500 million more than was initially targeted. Willem Jansonius, partner and head of DIF Value Add Funds, outlines how best to approach platform building and examines the challenges that lie in store.

Q How do you identify the right business to act as a nucleus for a platform business and what factors go into that decision?

It is really all about market position and the 'competitive window' that the opportunity presents. For example, how consolidated is the business's subsector and how strong is its underlying growth? Are there any super-cycle tailwinds driven by the energy transition or the push towards digitalisation? We seek to combine a number of those elements in an investment case. We then combine all that with a strong management team and an ambitious value creation plan.

The investment environment has been relatively complex in recent years. Firstly, covid turned the world upside down. Then over the last two years we experienced an inflation spike and a 400-500 basis points interest rate rises environment, which the infrastructure sector had not seen since the global

financial crisis. Finally, there has been heightened geopolitical uncertainty with conflicts in the Middle East and Ukraine.

All combined, they have led to structural changes across many of the businesses and sectors that infrastructure managers would normally invest in. Those effects aren't uniformly distributed across sector and regions.

Businesses in Germany, for example, have been more affected by the war in Ukraine than those in the US. Different regions have been influenced by different factors. Today, there is a lot of complexity in finding high value platforms to invest in, especially as we look to invest across several political cycles.

Q What skills and resources do infrastructure managers need to be able to build platform businesses?

There is a real benefit to having scale on the investment side. By that I mean having large global investment teams with deep sector specialisms combined with a strong local presence. One also needs different personality types and people with different personal backgrounds in the team. Many smaller managers struggle nowadays to bring the level of expertise and value creation toolkit needed to prosper.

We have more than 120 people across the globe that can really help drive value across sectors and dozens of investments worldwide. Our business is fundamentally a talent business. Attracting and retaining talent and bringing in diversity of thinking are crucial for driving returns over a long period and in a consistent manner.

Q What are the biggest challenges when investing in infrastructure platforms and how do you overcome them?

The difference between infrastructure and private equity is that infrastructure is very asset-heavy, has longer term contracts and typically moves a bit slower. If you invest in a typical PE asset like an asset-light or consumer-facing business, it is often easier to change things quicker than in infrastructure.

Infrastructure implies building with steel and concrete, dealing with permits, regulations and government contracts and providing essential services to society. That complexity requires significantly more work and usually takes time. In order to be successful as an infrastructure investor, it is important to take a very structured approach from day one to drive the value creation agenda and make the changes and improvements needed.

> *"If you want to sell a business in 2030 at good value, it will be inconceivable for it not to be climate resilient or future proofed"*

Q What do you see as the main challenges for infrastructure managers who want to adopt a platform-building approach?

If you look at the infrastructure investor world, building platforms and backing high-growth businesses looks easy on a PowerPoint slide. The reality is that implementing this in practice is incredibly complex. There are many things that need to happen in the right sequence and in the right timeframe. it starts with acquiring a good 'nucleus' business that is operationally proven and a good core to build from, and this investment needs to be priced right.

The second part is building out the management team. Very often, the businesses in which we invest are led by an owner or founder that only has a small management team. Typically, that implies one or two strong professionals that have built a business from scratch to a certain point but lack the capital to really scale up. That is where we come in.

These businesses often need to broaden and deepen the management team and layer below. We might bring in a CFO on day one, bring in non-executives to the board or advisers that have decades of experience in a particular sector. Scaling is also about building the layer below the top management, as day-to-day managerial layer this is very important to how a business operates.

That is all in year one, and then in year two we typically focus on greenfield expansion programmes and building up the business with add on acquisitions. That means focusing on the whole back-office machine, including reporting and both the decarbonisation and digitalisation strategy.

Q How do you see the platform-building approach evolving in the future?

Since the pandemic, the infrastructure sector has changed dramatically. If you look back at the years between 2008

Q Which subsectors of infrastructure are particularly well-suited to platform building?

The two most obvious answers are renewables and the digital sector. These two areas have seen a lot of capital concentration globally. Probably up to 70-80 percent of new dealflow in infrastructure over the last two to three years has been in these two sectors.

As a manager, we have a duty to drive change, and we see that as an opportunity. We firmly believe that strengthening digitalisation, climate resiliency and bringing businesses on a path to net zero creates long-term sustainable value. If you want to sell a business in 2030 at good value, it will be inconceivable for it not to be climate resilient or future proofed. We believe as infrastructure investors that it creates value to bring our portfolio companies onto this track by the time we exit.

As a diversified mid-market investor, we look intensively at niche markets which might be more unconventional but hold high quality, hidden gems. That includes for example specialist leasing businesses in the transport sector, such as the GSE leasing and rolling stock sectors.

Recently, we also invested into the UK mobile diagnostics sector. The key factor is that these businesses offer real growth upside combined with strong downside protection and will benefit from macro tailwinds.

and 2020, there was a climate of continuously falling interest rates. That meant it was relatively easy for infrastructure investors to make outsized returns from cheap debt and as a result large amounts of new capital flowed into the sector.

The interest rate shock of the last two years is the first time the sector has faced a more difficult fundraising climate since 2007. Capital is relatively scarce, on both the equity and debt sides. Today, there is far more discipline required to choose investments and LPs are more cautious in choosing which managers to work with.

This has led to more concentration on the larger and more professional managers with larger teams, stronger capabilities and better value creation toolkits to drive outsized returns.

Investors expect significant returns on their initial investments before making new commitments. And the tougher fundraising climate is very likely to continue for quite a few more years.

We are heading into a decade where infrastructure investment is much more about operational improvements that can capture real value and building platforms to scale.

Q Are the subsectors that infrastructure managers identity for platform building starting to change, and what are some of those 'rising' sectors?

I have been around in infrastructure long enough to experience multiple waves of popularity across different asset classes. Only 10 years ago, there was a big focus on midstream investment and regulated utilities – and in more recent years the attention turned to ESG and net-zero investing.

We have seen many asset types that were very popular and then fell somewhat from grace, as we have seen with some fibre investment and social infrastructure.

As a long-term investor, it is important to look through the hype and examine these shorter cycles. It is key to consider the longer-term structural trends to find and drive value.

If you look at what is currently happening in the battery world, or electric vehicle charging, there have been very serious amounts invested to date. There has been considerable growth in many of these markets across Europe and North America.

Hydrogen is a little bit more early stage for infrastructure investors and can be seen as more speculative. What that means is there is a real window of opportunity, but at the same time these are typically less mature businesses with all kinds of challenges such as technology, substitution or scale up risk.

Our value-add funds typically invest in 12 to 15 investments, and in such portfolios two to three investments would be in this higher risk area. Several investments would be high-growth businesses and several others would typically be more mature asset-heavy operational businesses which may bring in a little less return but have cash yields and offer defensive robustness. We believe it is critical to build carefully balanced and diversified portfolios to provide outsized returns throughout the cycle. ■

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